

IRS News Release

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Lower Estimated Tax Payments May Start Next Week

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WASHINGTON — Self-employed persons, investors, and others who make estimated tax payments can start benefiting from the lower tax rates and other changes made by the new tax law next Monday, June 16, when they make their second quarterly payment. By using the new provisions to refigure their projected 2003 income tax, many will be able to reduce their payments for the rest of the year.

The IRS Web site has an overview of key changes to be considered, the new tax rate schedules to be used and worksheets in Publication 505, "Tax Withholding and Estimated Tax," for computing special items. Go to www.irs.gov/newsroom, click on "What's Hot" and then the estimated tax article.

For many, the biggest impact on quarterly payments will come from lower tax rates:

- The 10 percent rate applies to the first \$7,000 of taxable income for single persons, \$14,000 for married persons filing jointly and qualifying widow(er)s.
- The 15 percent rate for joint filers and qualifying widow(er)s covers up to \$56,800 of taxable income.
- Rates above 15 percent are lowered to 25, 28, 33 and 35 percent.
- The maximum rate is 15 percent for qualified dividends for 2003 and for net capital gain on sales and installment sale payments received after May 5, 2003. But a five percent rate applies to gains or dividends that would have otherwise been taxed at a regular rate of 10 or 15 percent. (There are no changes in the special rates for unrecaptured section 1250 gain, collectibles gain, or section 1202 gain.)

In addition to the tax rates, other key changes include:

- A higher standard deduction for married persons: \$9,500 for joint returns, \$4,750 for a married person filing separately.
- A higher alternative minimum tax exemption amount: \$40,250 for a single person or a head of household; \$58,000 for married persons filing jointly or qualifying widow(er)s; and \$29,000 for a married person filing separately.

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- The limit on the section 179 deduction for business expenses rises to \$100,000 and the deduction phaseout does not apply until qualifying expenses exceed \$400,000. Off-the-shelf computer software now qualifies as section 179 property.
- The special first-year depreciation allowance rises from 30 to 50 percent for qualified property acquired after May 5, 2003. However, a taxpayer may choose to claim the 30 percent rate or even to not claim any special allowance. The depreciation limit for vehicles subject to this 50 percent allowance increases by \$7,650.

A significant break that people should generally not factor in when figuring estimated taxes is the increased Child Tax Credit (CTC) amount for 2003. Most parents who claimed that credit last year will get the increase later this summer in a check for up to \$400 per qualifying child. The IRS will automatically determine the proper amount based on the 2002 return.

Taxpayers don't have to do anything to get their CTC checks, but those who have moved since filing the 2002 return should be sure the Postal Service has their current mailing address. The check mailings will begin July 25.

Taxpayers who did not qualify for the Child Tax Credit last year but will in 2003 – for example, those whose first child is born this year – may include this credit when projecting their tax for 2003. The new maximum per child amount is \$1,000.

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